



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

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December 20, 2007

Mr. Ben Curry, Warden  
Correctional Training Facility  
P.O. Box 686  
Soledad, CA 93960-0686

Dear Mr. Curry:

**Final Report: Correctional Training Facility—Internal Control Review**

Enclosed is our final internal control report on the Correctional Training Facility (Institution) as of November 9, 2006. The Department of Finance, Office of State Audits and Evaluations (Finance), performed this review to meet the Institution's requirements for the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400, et seq.

The findings in our report are intended to assist the Institution management in focusing attention on areas of risk, strengthening internal control, and improving operations. The Institution agreed with our findings and we appreciate the Institution's willingness to implement corrective action.

As required by the Financial Integrity and State Manager's Accountability Act of 1983, Government Code 13400, et. seq., please provide us with a corrective action plan within 30 days from the date of this letter. In addition, an updated corrective action plan every 6 months is required until all of the recommendations are implemented. Mail your corrective action plan to:

Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

We appreciate the assistance and cooperation of Institution staff and management during our review. In accordance with Finance's policy of increased transparency, the report will be placed on our website. If you have any questions, please contact Kimberly Tarvin, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

*Original signed by:*

Janet I. Rosman, Assistant Chief  
Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. James E. Tilton, Secretary, California Department of Corrections and Rehabilitation  
Ms. Heidi Lackner, Director, Division of Support Services, California Department of  
Corrections and Rehabilitation  
Mr. Scott Carney, Deputy Director, Fiscal Services, California Department of Corrections  
and Rehabilitation  
Mr. Timothy Gilpin, Associate Director, Accounting Services, California Department of  
Corrections and Rehabilitation  
Ms. Kim Holt, External Audits Manager, Office of Audits and Compliance, California  
Department of Corrections and Rehabilitation  
Ms. Gayle Fifield, Administrator III, Regional Accounting Office, Northern Region,  
California Department of Corrections and Rehabilitation  
Mr. Jaime Corvera, Administrator II, Central Coast Regional Accounting Office, California  
Department of Corrections and Rehabilitation

# AN INTERNAL CONTROL REVIEW

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## Correctional Training Facility

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

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The California Department of Corrections and Rehabilitation (Department) operates all state adult prisons and juvenile facilities, oversees a variety of community correctional facilities, and supervises all adult and juvenile parolees during their reentry into society. The Department's adult program includes 33 institutions which span the state from Pelican Bay State Prison in the northwest corner of California to Centinela State Prison near the United States/Mexico border.

The Department's Sacramento Headquarters and eight regional accounting offices perform the fiscal administrative functions related to the adult institutions. Many of these accounting and administrative functions are consolidated within the regional accounting offices, while some functions, such as inmate trust and stores accounting, are performed at the institutions. The Department's fiscal administrative structure enhances its ability to provide effective fiscal management through centralization of institutions' accounting records, application of consistent accounting procedures, monitoring of fiscal activity, and retention of trained and qualified staff.

The Correctional Training Facility (Institution) is served by the Central Coast Regional Accounting Office (RAO). An internal control review of the Institution was performed in conjunction with a review of the RAO. Separate reports are being issued for the RAO and the Institution. The findings in this report pertain to the Institution's controls over the processing and preparation of Institution transactions and financial statements.

State managers are required to maintain internal control over the programs they administer. Internal control is as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. This definition of internal control includes five interrelated components:

- *Control environment* sets the tone of an organization and influences the control consciousness of its staff. It is the foundation for all other components of internal control and provides discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to the achievement of its objectives and forms a basis for determining how risk should be managed.
- *Control activities* are the policies and procedures that help ensure management directives are carried out.
- *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

- *Monitoring* is the process that assesses the quality of internal control performance over time.

The objective of the internal control review was to assist the Department in complying with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400, et seq. Specifically, the Department of Finance, Office of State Audits and Evaluations, assisted the Department in determining whether the Institution's: (1) assets are safeguarded from unauthorized use or disposition, (2) financial transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of reliable financial statements, and (3) financial operations are conducted in accordance with State Administrative Manual guidelines, certain other state laws and regulations, and the Institution's and Department's policies and procedures.

The review did not include an evaluation of the efficiency or effectiveness of the Institution's operations, or the accomplishment of program goals or objectives.

This report is intended for the information and use of Institution and Department management. It is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

#### **STAFF:**

Kimberly Tarvin, CPA  
Manager

Rich Hebert  
Brandon Nunes  
Supervisors

Randy McClendon  
Lisa Negri  
Cindie Lor  
Mary Tesema

## EXECUTIVE SUMMARY

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The review of the Correctional Training Facility's (Institution) internal control indicated that controls are in place and working as intended for accounts receivable, purchasing, revolving fund, personnel and payroll, and inmate trust. The Institution adequately clears employee receivables and salary advances. Purchases are properly authorized and made in accordance with state policies, and the revolving fund is used for authorized purposes. In addition, controls over the personnel and payroll functions are sufficient to ensure the reliability and integrity of payroll data, and inmate trust funds are properly safeguarded and accounted for. However, controls could be improved to reduce the risk of errors, irregularities, and material misstatements in the areas of: institutional stores, cash receipts, disbursements, property, and contracts.

The findings in this report are based on fieldwork performed between September 11, 2006 and November 9, 2006. The findings and observations were presented to the related units and Institution management throughout the fieldwork and at the exit conference held November 9, 2006.

This review was limited to the Institution's accounting and administrative functions and did not include the accounting and administrative functions performed at the Central Coast Regional Accounting Office (RAO) or the Department of Corrections and Rehabilitation Headquarters (Headquarters). Specifically, information technology, budget, and financial reporting activities were not reviewed, and the contracts review was limited. The RAO is primarily responsible for the Institution's financial reports and information technology processing for fiscal and accounting functions processed through the California State Accounting Reporting System (CALSTARS). In addition, the RAO and Headquarters process all budget transactions and contracts with a value of \$5,000 or higher for the Institution. Furthermore, the review did not include an evaluation of the efficiency or effectiveness of the Institution's operations, or the accomplishment of program goals or objectives.

### Reportable Conditions

*Institutional Stores:* The Institution's controls over the pharmacy and warehouse inventories do not ensure proper accountability of these items. Specifically, the pharmacy does not maintain a perpetual inventory system to control the receipt and issuance of pharmaceuticals. In addition, independent spot-verifications of the warehouse inventory are not performed quarterly.

*Cash Receipts:* The Institution's controls over cash receipts are inadequate to ensure that receipts are deposited and recorded in the accounting records timely. The mailroom does not timely forward checks to the accounting office for timely endorsement and deposit. Furthermore, all mailroom staff have access to the mailroom safe.

*Disbursements:* The Institution's controls over cash disbursements are not sufficient to ensure disbursements are made only for allowable purposes. Revolving Fund checks issued by the accounting office are not properly recorded in the Check Log.

*Property:* The Institution does not maintain adequate control and accountability over property. Specifically, adequate records were not maintained to document that physical count of all property had been performed.

*Contracts:* The Institution's controls over contracts are not adequate to ensure that contracts are properly authorized. Specifically, service and expense orders are not prepared before the commencement of work.

For further analysis of these weaknesses, see the *Findings and Recommendations* section of this report. This report is intended to assist the Institution management in focusing attention on areas of risk to strengthen internal control and improve operations.



## AUDITOR'S REPORT

Mr. Ben Curry, Warden  
Correctional Training Facility  
P.O. Box 686  
Soledad, CA 93960-0686

The Department of Finance, Office of State Audits and Evaluations, reviewed the internal control of the Correctional Training Facility (Institution) as of November 9, 2006, for conformity with Government Code Section 13400, et seq. The review included gaining an understanding of internal control through observations and interviews, evaluating the design and operating effectiveness of the internal control, and performing other procedures deemed necessary.

The Institution's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13400, et seq., includes documenting internal control, communicating requirements to employees, and assuring that the internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control are to provide reasonable, but not absolute, assurance of the following:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Based on the review of the Institution's internal control as of November 9, 2006, certain matters were noted involving the Institution's internal control and its operation that are considered to be reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, could adversely affect the Institution's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition that precludes the Institution's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. We believe that none of the reportable conditions is a material weakness. The reportable conditions are described in the *Findings and Recommendations* section of this report.

This report is intended for the information and use of Institution and Department management. It is not intended to be and should not be used by anyone other than the designated parties. However, this report is a matter of public record and its distribution is not limited.

*Original signed by:*

Janet I. Rosman, Assistant Chief  
Office of State Audits and Evaluations  
(916) 322-2985

November 9, 2006

## FINDINGS AND RECOMMENDATIONS

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The review of the Correctional Training Facility (Institution) accounting and administrative controls in effect as of November 9, 2006, indicates that most controls were functioning as intended. Specifically, no reportable conditions were identified for the accounts receivable, purchasing, revolving fund, personnel and payroll, and inmate trust. However, some controls were not operating as intended, and corrective action is needed to safeguard assets from loss. If left uncorrected, these weaknesses could increase the risk that material errors and irregularities could occur and remain undetected.

### **Institutional Stores**

Effective internal control over institutional stores is necessary to ensure that the Institution properly accounts for inventory and that inventory is adequately safeguarded. The following internal control weakness over the Institution's stores were identified.

#### **FINDING 1                      Lack of Pharmaceutical Inventory System**

Condition:                      The pharmacy does not maintain an inventory showing the receipt, issuance, or availability of pharmaceutical items. Total pharmaceutical expenditures for fiscal year 2005-06 exceeded \$1.9 million.

The sensitive nature and volume of pharmaceuticals require that procedures be in place to prevent the loss or misappropriation of these items. Lack of controls over pharmaceuticals may result in monetary loss, misappropriation, or injury due to misuse.

Criteria:                        State Administrative Manual (SAM), Section 10860, requires that a physical inventory of materials and supplies be completed every three months.

Recommendation:          Establish an inventory control system over pharmaceuticals and conduct a physical count of these items quarterly. Physical counts should be reconciled to the inventory system's balances on hand with adequate explanation of discrepancies.

#### **FINDING 2                      Warehouse Inventory Not Independently Verified**

Condition:                      An independent verification of the Institution's warehouse inventory is not performed on a quarterly basis. Not verifying inventory counts increases the risk of loss due to theft and unauthorized use, and misstates inventory values in the financial statements.

*This is a finding in our prior internal control review.*

Criteria: SAM, Section 10860 requires that a physical inventory of stores be spot verified by another person independent of the storekeeping/warehouse process every three months.

Recommendation: Establish a quarterly independent verification procedure for warehouse inventory.

### **Cash Receipts**

Effective internal control over cash receipts is necessary to safeguard cash, establish accountability, ensure timely deposits, ensure proper posting to the accounting records, and prevent and timely detect any errors or irregularities. The following internal control weakness over the Institution's cash receipts were identified.

#### **FINDING 3                      Inadequate Mailroom Controls over Cash**

Condition: Control over cash receipts in the mailroom is inadequate. Specifically, checks are not timely endorsed and deposited because the mailroom holds all checks until the end of the month before forwarding them to the accounting office for endorsement and deposit. Furthermore, all eight mailroom staff have access to the mailroom safe combination. This increases the risk that cash receipts could be misappropriated without detection.

Criteria: SAM, Section 8023, requires that all checks, money orders, and warrants received for deposit be restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day.

SAM, Section 8032.1, requires that accumulated receipts of any amount not remain undeposited for more than ten working days.

SAM, Section 8024, requires the safe combination to be known to as few persons as possible consistent with operating requirements.

Recommendations: Forward checks timely to the accounting office to ensure that they are timely endorsed and deposited. Furthermore, limit the number of staff that have access to the mailroom safe combination based on operational needs.

### **Disbursements**

Effective internal control over disbursements is necessary to safeguard cash, ensure disbursements are properly authorized and posted to the accounting records, and to prevent or timely detect any errors or irregularities. The following internal control weakness over the Institution's disbursements was identified.

#### **FINDING 4                      Revolving Fund Check Issuance**

- Condition:**                      The Institution does not maintain adequate controls over the issuance of revolving fund checks. Seven instances were noted where the check issuance information was not recorded in the July 2006 Check Log. Specifically, the check number was included in the log, but the check date, payee, amount, and payment description were blank, and the accounting staff was unable to provide this information. Not requiring this information to be recorded increases the risk that unauthorized payments or misappropriation of funds could occur.
- Criteria:**                      SAM, Section 8094, states agencies will record individual checks written each day. Separate cash disbursement registers will be used for General Cash and Agency Trust Fund cash transactions.
- Recommendation:**        Ensure the monthly check log includes the required information for all checks issued.

#### **Property**

Effective internal control safeguards property, plant, and equipment from unauthorized acquisition, use, or disposition. The following internal control weakness over the Institution's property was identified.

#### **FINDING 5                      Inadequate Physical Inventory Procedures**

- Condition:**                      The Institution does not maintain adequate documentation of inventory counts conducted to ensure the accountability of all property. While the Institution indicated that inventory counts were performed during 2005 and 2006, it could not provide documentation showing which areas were included in the inventory counts and the date of the last inventory count. As a result, it could not be determined whether the Institution performed all the required inventory counts or whether all property was included in the inventory counts. If a complete inventory was not performed or reconciled to the accounting records, a risk exists that the financial statements could be materially misstated and that property could be misappropriated without detection.
- Criteria:**                      SAM, Section 8652, requires departments to perform a physical count of all property and reconcile the count with accounting records at least once every three years.
- Recommendation:**        Strengthen inventory documentation procedures to verify that all property has been included in the inventory counts and reconciled to the accounting records at least once every three years.

## Contracts

Effective internal control over contracting ensures the Institution's procurement is effective and complies with state laws and regulations. The following internal control weakness over the Institution's contracts was identified.

### **FINDING 6                      Untimely Approval of Service and Expense Orders**

Condition:                      Service and Expense Orders are vendor contracts valued at less than \$5,000 that are used for a variety of expenditures including medical services. Of the 42 Service and Expense Orders selected for review, 18 were approved up to 9 months after the contract start date.

Late approval of the Service and Expense Orders delays payment to vendors, resulting in late payment penalties, and could impact which vendors are willing to provide future services to the Institution. Additionally, if the Service and Expense Order is not approved after services have been provided by the vendor, the services will not be authorized for payment subjecting the state to legal action imposed by the vendor.

Criteria:                      State Contracting Manual, Section 4.09A, states that a contractor shall not begin work prior to receiving a copy of the signed contract. Services should not be provided until the contract is formally approved by the agency.

Recommendation:              Obtain approval for all contracts prior to commencement of the services.

## INSTITUTION RESPONSE

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# Memorandum

Date : October 26, 2007

To : Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

Subject : **INSTITUTIONS RESPONSE TO INTERNAL CONTROL REVIEW DRAFT REPORT  
RE: CORRECTIONAL TRAINING FACILITY (CTF)**

The institution is in receipt of the draft report provided by the Department of Finance, regarding the November 9, 2006 internal control review audit. The intent of this review was to evaluate the processes CTF had in place to provide reasonable assurance for financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

While the review of internal controls indicated that CTF did have controls in place and working, the review team suggested that controls could be improved to reduce the risk of errors, irregularities, and material misstatements in several areas. Effective internal control over institutional stores is necessary to ensure that the institution properly accounts for inventory, and that the inventory is adequately safeguarded. The review team identified the following internal control weakness in our process, and made several recommendations. Below are the specific areas and deficiencies identified, and a brief statement of CTF's corrective action plan.

## **1. Lack of Pharmaceutical Inventory System:**

The institution (Medical Department) is in agreement that the pharmacy does not maintain adequate inventory records to show receipt, issuance, or availability of pharmaceutical items.

Current state law requires all pharmacies to account for scheduled (controlled) medications. Scheduled medications will be inventoried by pharmacy staff. Additionally, Maxor National Pharmacy Service is in the process of developing and implementing the Guardian Rx pharmacy information system department wide. This service will include an inventory control process which shall accurately record receipt, issuance and accountability for pharmaceuticals.

## **2. Warehouse Inventory Not Independently Verified**

Warehouse inventory is not performed on a quarterly basis. An independent verification of the warehouse inventory is not being performed on a quarterly basis.



A Warehouse physical inventory is currently being conducted, and shall be conducted on a quarterly basis thereafter. To ensure the independence of the inventory, designated Trust / Accounting Personnel will be responsible for conducting a physical count of 10% of the Support Warehouse inventory.

### **3. Inadequate Mailroom Controls over Cash**

Control over cash receipts in the Mailroom is inadequate. Checks are not timely endorsed and/or deposited in accounting due to the Mailroom holding checks until the end of the month. Furthermore, all Mailroom staff has access to the safe combination.

**(As it pertains to the Accounting Department)** When checks, money orders, and warrants are received from the Mailroom, the Account Clerk II (Cashier) will prepare a transfer receipt reflecting the amount of the transaction with the dollar amount and name of issuing party. This same information will be copied to a press-numbered receipt on the same day received in accounting to ensure daily posting and deposits into inmate accounts.

**(As it pertains to the Mailroom Department)** Checks, Money Orders, and Warrants received daily in the Mailroom shall be logged and secured in the safe. As required, funds received after the initial delivery to the Accounting Office shall be kept in the safe. On the following business day, said funds shall be taken over to the Accounting Office for processing.

### **4. Revolving Fund Check Issuance**

The institution does not maintain adequate controls over the issuance of revolving fund checks.

The Account Clerk II will now make a photocopy of all 309 checks and will post the information in the "Check Log" with the appropriate information (date, check number, payee, dollar amount, and type of check). This process will be on going in all instances involving the issuance of a revolving check.

### **5. Inadequate Physical Inventory Procedures**

The institution does not maintain adequate documentation of inventory counts conducted to ensure the accountability of all property.

Inventory and property protocols shall be followed, in that all materials that meet the criteria of equipment or sensitive property, shall be numerically property tagged upon receipt, inscribed, and transposed to the Stock Received Report for input into the Property Log and Property Control System.

#### **6. Untimely Approval of Service and Expense Orders**

The Audit team findings were related to agreements for medical and maintenance services. Medical services were rendered prior to an S & E being received by the Procurement Office.

The Receiver has recognized this as a dilemma, and in accordance with the court order, exempts CDCR medical department from being required to competitively bid medical services contracts or file bid exemption applications with the Department of General Services. The medical department has been encouraged to utilize the court order as a final remedy to provide payment to a medical provider.

Belated S & E's submitted by Plant Operations are directly linked to the process of the CDCR 1852 in a timely manner. Plant Operations will make every effort to ensure that all pertinent documentation is submitted prior to the start of work.

The institution is appreciative of the time and professionalism exhibited by the audit team during their review of the Correctional Training Facility.

Original signed by:

B. Curry  
Warden  
Correctional Training Facility

## EVALUATION OF RESPONSE

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The Correctional Training Facility (Institution) provided a response to the Internal Control Review as of November 9, 2007. The following is the Department of Finance, Office of State Audits and Evaluations (Finance), evaluation of the response:

The Institution agreed with and adequately addressed all the findings, except for Finding 5, Inadequate Physical Inventory Procedures. The recommendation stated that the Institution should strengthen inventory documentation procedures to verify that all property has been included in the inventory counts and reconciled to the accounting records at least once every three years. However, the response addressed the procedures for tagging and recording of property in the Property Log and Property Control System. Therefore, the Institution should review the recommendation and develop a corrective action plan to address the documentation of inventory counts and reconciliations of the inventory counts to the accounting records.